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TAGS: [PREL](#) [PARM](#) [ENRG](#) [ETRD](#) [EFIN](#) [IR](#) [CH](#)  
SUBJECT: PRC/IRAN: TREASURY UNDER SECRETARY LEVEY'S  
MEETINGS IN BEIJING

REF: A. STATE 52694  
[1](#)B. BEIJING 1927

Classified By: Economic Deputy Minister Counselor Robert Forden: Reason  
s 1.4 (b, d)

[1](#)1. (S) SUMMARY: U.S. Department of the Treasury Undersecretary (U/S) Stuart Levey briefed the People's Bank of China (PBOC), the Ministry of Finance (MOF), the Ministry of Foreign Affairs (MFA), the Bank of China (BOC), and the China Export and Credit Insurance Corporation (Sinosure) on September 26 regarding ongoing Iranian proliferation-related finance activities and efforts to circumvent United Nations Security Council Resolutions (UNSCRs). In response, PBOC Deputy Governor Su Ning said the large Chinese banks were quite vigilant about sanctioned Iranian banks, but agreed that some of the smaller banks might be less so. MOF Assistant Minister Zhu Guangyao agreed with Su's assessment, and also inquired whether the current financial crisis might further complicate anti-money laundering and anti-terrorism finance efforts. Assistant Foreign Minister (AFM) Liu Jieyi said China seeks an "appropriate" resolution of the Iranian nuclear issue, and warned that going beyond what is called for in relevant UNSCRs will create a disincentive for Iran to cooperate, adding that sanctions are having an effect on Iran. BOC Vice Chairman and President Li Lihui said his bank was extremely careful about engaging in business in any sensitive areas, such as those involving Iran and North Korea, and Li said they now would become even more cautious. Sinosure Vice President Liang Zhidong conceded that his company previously had maintained direct contacts with the Central Bank of Iran (CBI) and the Iranian Ministries of Finance and Economy, primarily with regard to Iranian letters of guarantee and payment for imported Chinese goods, but repeatedly asserted that Sinosure currently had no agreement with the CBI and was not being used by the CBI to circumvent UN sanctions. END SUMMARY.

[1](#)2. (S) Department of Treasury U/S for Terrorism and Financial Intelligence Stuart Levey briefed People's Bank of China (PBOC) Deputy Governor Su Ning, Assistant Minister of Finance (MOF) Zhu Guangyao, Assistant Foreign Minister Liu Jieyi (MFA) Bank of China (BOC) President Li Lihui, and Sinosure Executive Vice President Liang Zhidong on Iranian financial and trade practices used to evade measures taken by the international community under UNSCRs 1737, 1747 and 1803. In addition to banking and trade practices that are intended to conceal the role of Iranian entities listed in the resolutions, U/S Levey described USG concerns that the provision of other financial services to Iranian entities could violate UNSCR 1737. In the meetings with Chinese government officials, U/S Levey provided a set of sensitive documents containing examples of deceptive activity on the part of Iranian entities, including some specific information regarding Chinese-Iranian financial ties. U/S Levey asked his GOC interlocutors to look carefully into Iranian attempts to establish closer ties with Chinese banks and companies.

U/S Levey also raised China's holds on behalf of Pakistan on U.S.-proposed designations under UNSCR 1267 with the MFA.

PBOC: Smaller Banks at Risk  
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13. (S) At the PBOC, U/S Levey detailed Iran's international proliferation-related financial activities and its use of various deceptive practices to conceal those transactions. Levey said that, prior to the October Financial Action Task Force (FATF) plenary session, the USG wanted to consult with the Chinese regarding possible FATF action in October on Iran and ensure that the PBOC was fully cognizant of Iran's activity. U/S Levey highlighted in particular Iran's use of intermediate banks and individuals to conceal the true origin and nature of financial transactions; approaches to smaller Chinese banks, which might be less familiar with international sanctions, concerns, and practices; use of the Islamic Republic of Iran Shipping Line (IRISL) to evade United Nations Security Council sanctions; and, attempts by the Central Bank of Iran (CBI) to establish a relationship with Sinosure. In the package of information that U/S Levey shared with the PBOC, the following smaller banks were referenced in this context: Yinzhou Bank (Ningbo Yinzhou Rural Cooperative Bank), Rizhao City Commercial Bank (Shandong), Agricultural Bank of China, and China Everbright Bank.

14. (S) In response, Deputy Governor Su affirmed that the PBOC attached great importance to the issues raised by U/S Levey, and that the PBOC wanted to continue the long-standing bilateral cooperation in combating terrorism. He

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acknowledged that, while the large Chinese banks were quite vigilant about sanctioned Iranian banks, some of the smaller banks might be more at risk. He said the PBOC would continue to work with those banks to enhance their efforts. In reviewing the detailed information that U/S Levey provided about Chinese-Iranian financial ties, Su requested the USG provide more detailed information, including banking codes and customer lists for the Central Bank of Iran. He also agreed to discuss U/S Levey's concerns with Sinosure. Finally, Su and his PBOC colleagues requested USG support for China within the FATF as China completes its follow-up plan and moves to the next stage of FATF membership, and indicated that China was comfortable with further steps on Iran within the FATF.

Ministry of Finance  
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15. (S) Following a similar briefing by U/S Levey, MOF A/M Zhu Guangyao reaffirmed and repeatedly emphasized his ministry's continuing cooperation in the area of terrorist finance. Zhu also inquired whether the current financial crisis might further complicate anti-money laundering and anti-terrorism finance efforts. He agreed that the smaller Chinese banks might be more at risk, as they lacked adequate international experience. Zhu and his staff also provided more information on Sinosure, which they said was a state-owned company engaged in promotion of machinery, electronics, and other high technology product exports. MOF, which owns 100 percent of Sinosure's shares, provided credit support and policy guidance to Sinosure, while the Chinese Insurance Regulatory Commission regulated the company.

Ministry of Foreign Affairs  
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16. (S) AFM Liu expressed thanks for the information and said the Chinese side would study it carefully. Liu asserted that the United States and China have a common interest in ensuring the Iranian nuclear issue is settled "appropriately," and "sooner rather the later." He asserted that the P5-plus-1 process is "slowly, painfully" making

"some" progress, but acknowledged that the progress is "not as much as we want." On Iranian efforts to evade sanctions, Liu cautioned that countries need to remain vigilant against the possibility that others may try to bypass the controls required in the relevant UNSCRs by providing prohibited items to Iran. Liu remarked that the Iranian side has complained about the measures China has implemented, but China feels a need to "stay on the safe side." Liu offered no reaction to information shared regarding a potential deal between the Chinese Export and Credit Insurance Corporation (SINOSURE) and the Central Bank of Iran.

17. (C) On the question of additional sanctions, Liu stressed that the goal of sanctions in the relevant UNSCRs is to advance negotiations with Iran and persuade Iranian leaders to abandon nuclear activities. Therefore, the implementation of current UNSCRs and the development of future ones should be "strict but not extended too far." He cautioned against "reading into the UNSCRs more than is there," and said that China implements the UNSCRs "to the letter, no more, no less." Liu argued that if Iran believes that "whatever action it takes, the international community will still tighten the screws," Iranian leaders will see no incentive to cooperate. Liu also said pressure on Iran that is "disproportionate" to its actions would indicate to the Iranians that the goal of the international community is not limited to Iran's nuclear program, but aims at effecting a change of regime.

18. (C) U/S Levey questioned Liu's assessment that additional measures would be a disincentive to cooperation by Iran, given that Iran has not reacted positively or cooperatively thus far to measures already in place. Liu conceded that Iran's cooperation with the international community on the nuclear issue is "not sufficient." While the U.S. agrees that sanctions have had an impact, U/S Levey cautioned that the "pinch is becoming lighter" as time passes and Iran finds ways to work around sanctions. Given China's high level of trade with Iran, U/S Levey said that China needs to be even more vigilant than most countries to Iran's efforts to evade both international sanctions and China's export control laws.

19. (S) On an unrelated terrorism finance issue, U/S Levey raised the four individuals that the United States has proposed for sanctioning under UNSCR 1267 that are currently being held by China on Pakistan's behalf (reftels). Liu acknowledged that China has put a hold on two designation

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requests (of a total of four individuals) at Islamabad's request, adding that China has questions about the merits of the cases based on Pakistan's explanations. Liu said he is aware that the United States and Pakistan are discussing the cases, but China is hearing different stories from the two sides and noted Pakistan's concerns about the accuracy of the information around the proposed designations. AFM Liu said China has no particular problem with the designations, but stressed the need to ensure that the cases are correctly decided based on the facts.

Bank of China

110. (S) In response to U/S Levey's briefing, BOC Vice Chairman and President Li Lihui said his bank also attached great importance to anti-money laundering and strictly complied with all relevant UN sanctions. As the most international of the Chinese banks, with the most overseas branches, BOC had been the first Chinese bank to address anti-money laundering through organizational and policy measures. The BOC promptly disseminated all UN sanctions lists to all its branches, and refused to engage in business with any sanctioned entities. The bank was extremely careful about engaging in business in any sensitive areas, such as Iran and North Korea, and Li said they now would become even more cautious. BOC Vice President Zhang Yanling added that

she would instruct all BOC branches worldwide about the specific Iranian companies mentioned by U/S Levey.

Sinosure

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¶11. (S) Sinosure Vice President Liang told U/S Levey that any decision to grant export credit insurance worldwide was based on risk and the ability and willingness of the foreign company to pay on time and in full. For Iranian companies, however, Liang said Sinosure followed the fundamental principles contained in the UN resolutions and conveyed to Sinosure by the MFA, Chinese Insurance Regulatory Commission (CIRC), and PBOC: that the Iranian counterpart and the goods involved must have no relationship to any nuclear program; that any entities designated by the UN should not become purchasers of Chinese products; and that export goods must be certified by Chinese experts as not useable for military or nuclear purposes. Liang claimed that no such cases had occurred since Sinosure had begun to supply credit insurance for exports to Iran.

¶12. (S) Liang conceded that Sinosure previously had maintained direct contacts with the Central Bank of Iran (CBI) and the Iranian Ministries of Finance and Economy, primarily with regard to Iranian letters of guarantee and payment for imported Chinese goods. While the nature of Sinosure's business with Iran required it to work with Iranian commercial banks, Liang repeatedly asserted that Sinosure had no agreement with the CBI and was not being used by the CBI to circumvent UN sanctions. Sinosure did, however, request the CBI to provide guarantees for transactions by Iranian commercial banks, because under the Iranian system all of Iran's foreign exchange reserves were held by the CBI.

¶13. (SBU) U/S Levey cleared this cable.  
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